

1 HONORABLE ROBERT S. LASNIK
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7 IN THE UNITED STATES DISTRICT COURT
8 FOR THE WESTERN DISTRICT OF WASHINGTON
9 AT SEATTLE

10 SEATTLE PACIFIC INDUSTRIES, INC.

Civil Action No.: 18-cv-224-RSL

11 Plaintiff,

PLAINTIFF'S MOTION FOR
SUMMARY JUDGMENT
(PUBLIC VERSION, REDACTED)

v.

12 S3 HOLDING LLC and OLIVIA MILLER, INC.

NOTING DATE: DECEMBER 21, 2018

13 Defendants.

14
15 INTRODUCTION

16 Plaintiff Seattle Pacific Industries, Inc. ("SPI") is the owner of the well-known
17 UNIONBAY trademarks for apparel and footwear. In 2014, SPI licensed its UNIONBAY
18 marks to defendant S3 Holding LLC ("S3") for use in connection with the manufacture and
19 sale of footwear pursuant to a Trademark License Agreement (the "License Agreement"). In
20 2017, S3 failed to make two required quarterly guaranteed minimum quarterly royalty
21 payments and two quarterly advertising payments. SPI delivered a written notice of default to
22 S3 resulting in the termination of the License Agreement. Despite the termination of the
23 License Agreement, S3 has continued to sell UNIONBAY merchandise without authorization.

24 Based on S3's answer to the complaint and its responses to SPI's written discovery
25 requests, there is no dispute that S3 breached the License Agreement and that SPI has been
26 damaged. It is undisputed that S3 owed SPI \$160,000 in guaranteed payments under the
27 License Agreement for 2017. It is also undisputed that SPI has been deprived of payment of

royalties for all of S3's 2018 sales of UNIONBAY merchandise which was unauthorized and in breach of the License Agreement.

All sales of UNIONBAY branded merchandise without authorization after termination of the License Agreement also constitute trademark infringement. For this infringement, SPI is also entitled to recover damages in form of lost royalties. Further, to compensate SPI for the additional substantial and irreparable damage to the goodwill of the UNIONBAY Marks, SPI requests that the Court treble the lost royalties award as authorized under the Lanham Act.

Based on these undisputed facts, SPI now moves for summary judgment on its breach of contract and trademark infringement claims.

STATEMENT OF FACTS

Founded in 1980 and based in Seattle, Washington, SPI is the owner of the family of UNIONBAY trademarks for various types of apparel and footwear. Declaration of Stephen Ritchey (“Ritchey Decl.”), ¶ 2. The UNIONBAY trademarks (the “UNIONBAY Marks”) include, among others, the following registered marks:

Mark	Reg. No.	Reg. Date	Goods
UNION BAY	1297731	9/25/1984	Men's, Women's and Children's Clothing and Sportswear Garments-Namely, Jeans, Blouses, Shirts, Jackets, Slacks, Pants, Tee-Shirts
UNIONBAY	1559904	10/10/1989	Men's, Women's and Children's Clothing and Sportswear Garments-Namely, Jeans, Blouses, Shirts, Jackets, Slacks, Pants, Tee-Shirts
UNIONBAY	2353790	5/30/2000	Men's, women's and children' s clothing and accessories, namely, jeans, blouses, shirts, jackets, belts, bottoms, underwear, coats, dresses, footwear, gloves, head wear, hosiery, sleepwear, socks, neckwear, robes, overalls, pants, skirts, sweaters, tops, and swim wear
UB	2455084	5/29/2001	Men's, women's and children's clothing and accessories, namely, jeans, blouses, shirts, jackets, belts, bottoms, underwear, coats, dresses, footwear, gloves, head wear, hosiery, sleepwear, socks, neckwear, robes, overalls, pants, skirts, sweaters, tops, and swim wear

Ritchey Decl., ¶ 3 & Ex. A.

On August 22, 2014, SPI entered into the License Agreement with S3 as licensee and Olivia Miller, Inc. (“Olivia Miller”) as guarantor. Ritchey Decl., ¶ 6 & Ex. B. In the License Agreement, SPI granted to S3 an exclusive license to use the UNIONBAY Marks in connection with the design, manufacture and wholesale distribution of footwear for young men and footwear for boys (the “UNIONBAY Products”). Complaint ¶ 11 (Doc. No. 1), Answer ¶ 11 (Doc. No. 17); Ritchey Decl., ¶ 7 & Ex. B (Standard Terms and Conditions (“Standard Terms”) ¶ 2(a)). Olivia Miller guaranteed the prompt payment of each and every obligation and liability of S3 under the License Agreement. Complaint ¶ 12, Answer ¶ 12; Ritchey Decl., ¶ 8 & Ex. B (Basic Terms ¶ 10). As stated in paragraph 10 of the Basic Terms of the License Agreement, the guarantee “is an absolute continuing and unlimited guarantee of payment.” Id.

The License Agreement provides that S3 was required to make an annual Guaranteed Minimum Royalty Payment (the “GMRP”). Ritchey Decl., ¶ 9 & Ex. B (Basic Terms, ¶ 6). For the year ending December 31, 2017, the amount of the GMRP was \$120,000. Id. S3 was also required to pay at least 2% of the Guaranteed Minimum Net Sale (the “GMNS”) each year as an Advertising Payment. Id. (Basic Terms, ¶ 9). The Advertising Payment for 2017 was \$40,000 (2% of the GMNS of \$2,000,000). See id. (Basic Terms, ¶ 7). Thus, for 2017, S3’s total minimum guaranteed payments due under the License Agreement were \$160,000.

For 2017, S3 agreed to pay to SPI the GMRP in equal quarterly installments in advance on the first day of January, April, July and October. Ritchey Decl., ¶ 11 & Ex. B (Standard Terms, ¶ 3(a)). The Advertising Payment for 2017 was also due and payable on a quarterly basis at the same time as the quarterly installments of the GMRP. Id. (Standard Terms, ¶ 3(d)). Thus, on January 1, 2017, S3 was required to pay to SPI \$40,000 (\$30,000 in GMRP and \$10,000 in Advertising Payment. And on April 1, 2017, S3 was required to make another payment to SPI of \$40,000.

It is undisputed that S3 failed to make either of these required payments. Ritchey Decl. ¶ 12. S3 admits that it did not make the quarterly installment payment of the GMRP for either

1 the first quarter or the second quarter of 2017. Declaration of Marc Levy in Support of
 2 Plaintiff's Motion for Summary Judgment ("Levy Decl."), Ex. A (Responses to Requests for
 3 Admission Nos. 5 & 6). It is also undisputed that S3 did not make any Advertising Payment in
 4 2017. Id. (Response to Request for Admission No. 8).

5 On May 16, 2017, SPI provided a written notice of default to S3 based, in part, on S3's
 6 failure to make its required quarterly installments of the GMRP and the Advertising Payment
 7 for the first and second quarters of 2017. Ritchey Decl. ¶ 13 & Ex. C. S3 admits that it failed to
 8 cure these defaults. S3 admits that it has not made any payments to SPI since January 1, 2017.
 9 Levy Decl., Ex. A (Response to Request for Admission No. 1).

10 The License Agreement terminated not later than 10 days after SPI sent its notice of
 11 default, namely May 26, 2017.¹ As a result of SPI's termination of the License Agreement, the
 12 entire balance of the GMRP and the Advertising Payment was accelerated and became
 13 immediately due and payable. Ritchey Decl., ¶ 15 & Exhibit B (Standard Terms, ¶ 11(c)(4))
 14 ("Any termination of this Agreement resulting from a breach or default by Licensee shall not
 15 relieve Licensee from any obligations which accrued prior to the date of termination. In
 16 addition, the unpaid balance of the GMRP and Advertising Payment shall be accelerated and be
 17 immediately due and payable.").

18 Within 15 days after termination, S3 was required to provide to SPI a detailed schedule
 19 of all inventory remaining on the date of termination and its location. S3 failed to comply with
 20 this obligation. Ritchey Decl., ¶ 17. The only information concerning S3's inventory was
 21 provided on June 7, 2017 and such information was incomplete; it lacked any information as to
 22 the location of the inventory. Id. S3 admits that it did not provide to SPI the location of its
 23

24
 25 ¹ Ritchey Decl., ¶ 14 & n. 1, Ex. B (Standard Terms ¶ 11(b)). In fact, the License Agreement terminated
 26 immediately upon SPI's sending of its May 16, 2017 notice of termination because the termination was based in
 27 part on S3's failure to obtain approval on many styles of footwear it was selling. See Ritchey Decl., ¶ 14 & n. 1,
 Ex. B (Standard Terms ¶ 11(a)). However, for purposes of this motion, SPI is not relying on S3's failure to obtain
 approvals as the basis for termination. Therefore, for purposes of this motion, SPI will assume that the License
 Agreement terminated on May 26, 2017, ten days after it sent its notice.

1 inventory remaining at any time after May 16, 2017. Levy Decl., Ex. A (Response to Request
 2 for Admission No. 8).

3 If S3 had provided the required inventory data as required, S3 would have had the right
 4 to sell through its inventory of UNIONBAY Products remaining as of the date of termination
 5 for a period of 180 days (ending not later than November 23, 2017), the Disposal Period. See
 6 Ritchey Decl., ¶ 17 & Ex. B (Standard Terms ¶ 11(d)). S3, however, failed to comply with this
 7 requirement and therefore S3 did not earn the benefit of the Disposal Period.
 8

9 S3 admits that it has sold UNIONBAY Products after SPI sent its notice of termination
 10 on May 16, 2017. Levy Decl., Ex. A (Response to Request for Admission No. 11). S3 also
 11 admits that it has sold UNIONBAY Products after the end of the Disposal Period in November
 12 2017. Levy Decl., Ex. A (Response to Request for Admission No. 12).

13 Using S3's sales records, SPI has calculated the amount of royalties it has lost as a
 14 result of SPI's 2018 sales of UNIONBAY Products after the termination of the License
 15 Agreement. Those royalties total [REDACTED] based on sales revenue of [REDACTED]. Ritchey Decl. ¶
 16 20. SPI has also calculated lost royalties on sales of S3's current inventory of UNIONBAY
 17 Products. That represents an additional royalty of [REDACTED]. Ritchey Decl. ¶ 21.

18 SPI filed this action on February 12, 2018. Under the License Agreement, defendants
 19 agreed that any controversy arising of the License Agreement "shall be resolved without a jury
 20 in a State or Federal Court located within the City of Seattle." Ritchey Decl., Ex. B (Standard
 21 Terms ¶ 17(i)). Defendants further consented to jurisdiction in such courts. Id. The parties
 22 further agreed that the License Agreement "shall be governed by and interpreted pursuant to
 23 the laws of the State of Washington...." Id.

24 ARGUMENT

25 I. Summary Judgment Standard

26 Summary judgment is appropriate when there is no genuine dispute as to any material
 27 fact which would preclude the entry of judgment as a matter of law. Fed. R. Civ. P. 56(a). The

1 moving party, SPI, bears the initial burden of identifying those portions of the pleadings,
 2 depositions, answers to interrogatories, admissions, and affidavits, if any, that demonstrate the
 3 absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S.
 4 Ct. 2548, 91 L. Ed. 2d 265 (1986). Once the moving party has satisfied its burden, it is entitled
 5 to summary judgment if the nonmoving party fails to designate specific facts showing that
 6 there is a genuine issue of material fact for trial. *Id.* at 324. "The mere existence of a scintilla of
 7 evidence in support of the non-moving party's position is not sufficient," and factual disputes
 8 whose resolution would not affect the outcome of the suit are irrelevant to the consideration of
 9 a motion for summary judgment. *Arpin v. Santa Clara Valley Transp. Agency*, 261 F.3d 912,
 10 919 (9th Cir. 2001); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L.
 11 Ed. 2d 202 (1986). The Court will view the evidence in the light most favorable to the
 12 nonmoving party and draw all reasonable inferences in that party's favor. *Mueller v. Auker*, 576
 13 F.3d 979, 991 (9th Cir. 2009).

15 In this case, SPI has met its burden of establishing that there is no genuine dispute as to
 16 any material fact that would preclude the entry of judgment as a matter of law on both of its
 17 breach of contract and trademark infringement claims.

18 II. S3 Breached the License Agreement

19 To sustain a claim for breach of contract, a party must allege a duty imposed by
 20 contract, a breach and damages proximately caused. *NW Indep. Forest Mfrs. V. Dep't of Labor*
 21 & *Indus.*, 78 Wash. App. 707, 712, 899 P.2d 6 (1995). SPI has satisfied each required element.

22 First, the License Agreement imposed duties on S3 to make quarterly installment
 23 payments of both the GMRP and the Advertising Payment for the first and second quarters in
 24 2017. Second, it is undisputed that S3 breached these duties because it admittedly failed to
 25 make these payments. Third, SPI has suffered damages from this breach in being deprived of
 26 these required payments.

S3 also breached the License Agreement by admittedly selling UNIONBAY Products after it was terminated in May 2017. S3 was not entitled to the benefit of the Disposal Period because it failed to meet the conditions required to obtain that benefit. Therefore, all S3's sales of UNIONBAY Products after not later than May 26, 2017 were unauthorized. But even if S3 had been entitled to the Disposal Period, it is undisputed that that period ended not later than November 23, 2017 and that S3 continued to sell License Products after the end of that period and into 2018. SPI has been damaged by this breach in the amount of the royalties of which it has been deprived. Based on S3's own sales data, these unpaid royalties for 2018 sales (not covered by the GMRP for 2017) amount to [REDACTED]. In addition, S3 is continuing to sell its current inventory of UNIONBAY Products. Royalties on its sales of this inventory amount to another estimated [REDACTED]. Thus, the total amount of damages from S3's breaches of contract are \$208,148.²

Because these contract damages are liquidated, they are subject to an award of prejudgment interest. *See Unigard Ins. Co. v. Mut. Of Enumclaw Ins. Co.*, 160 Wn. App. 912, 925, 250 P.3d 121 (2011). Under Washington law which governs the License Agreement, the prejudgment interest rate is set by RCW 19.52.010 at twelve percent. *See Hill v. Garda CL Nw., Inc.*, 191 Wn.2d 553, 573, 424 P.3d 207 (2018) ("prejudgment interest under RCW 19.52.010 is designed to repay the plaintiff for the 'use value' of the money that the plaintiff never received."). The \$160,000 in contract damages was liquidated as of no later than May 26, 2017, when that sum became due and payable. SPI is therefore entitled to recover prejudgment interest at the rate of twelve percent per year on the \$160,000 amount from May 26, 2017 to the date of judgment.

Finally, the prevailing party in any action to enforce rights under the License Agreement "shall be entitled to recover from the losing party its reasonable attorneys' fees and

² The \$208,148 damages figure is based on the undisputed unpaid GMRP and Advertising Payment for 2017 of \$160,000 plus royalties on S3's 2018 sales of UNIONBAY Products of [REDACTED] and estimated royalties on S3's current inventory of UNIONBAY Products of [REDACTED].

1 costs" Ritchey Decl., Ex. B (Standard Terms ¶ 17(q)). Therefore, in addition to the
 2 \$208,148 in breach of contract damages plus prejudgment interest, S3 is liable to pay SPI's
 3 reasonable attorneys' fees and costs.³

4 **III. S3 Has Infringed SPI's UNIONBAY Marks**

5 To show trademark infringement under the Lanham Act, the plaintiff must show that (1)
 6 the plaintiff owns a valid trademark; (2) the defendant is using the trademark without the
 7 plaintiff's authorization; and (3) the defendant's use of the trademark likely confuses
 8 consumers. *Applied Info. Scis. Corp. v. eBay, Inc.*, 511 F.3d 966, 969 (9th Cir. 2007) (citing
 9 *Brookfield Commc'nns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1047, 1053 (9th Cir.
 10 1999)).

11 In this case, S3 has undisputedly engaged in trademark infringement. First, there is no
 12 dispute that SPI is the owner of the UNIONBAY Marks which are registered. Ritchey Decl. ¶¶
 13 2-4 & Ex. A.

14 Second, there is no dispute that S3 has been using the UNIONBAY Marks without
 15 authorization after it no longer had any right to use such marks under the License Agreement.
 16 S3 admits that it has sold UNIONBAY Products after November 2017, which would have been
 17 the end of the Disposal Period even if it would have been activated.

18 Third, there is no dispute that S3's continued use of the UNIONBAY Marks on the
 19 UNIONBAY Products is likely to confuse consumers. Courts regularly find a likelihood of
 20 consumer confusion when, as here, former licensees continue to use trademarks without
 21 authorization. *See, e.g., Church of Scientology Int'l v. Elmira Mission of the Church of*
 22 *Scientology*, 794 F.2d 38, 44 (2d Cir. 1986) ("When such party . . . loses its authorization yet
 23 continues to use the mark, the potential for consumer confusion is greater than in the case of a
 24 random infringer. Consumers have already associated some significant source identification

25
 26 ³ Because the License Agreement provides for reasonable attorneys' fees and costs, if the Court grants SPI's
 27 motion for summary judgment, SPI requests that it be provided an opportunity to present its fees claim to the
 Court.

1 with the licensor.”); *see also Wetzel’s Pretzels, LLC v. Johnson*, 797 F. Supp. 2d 1020, 1028
 2 (C.D. Cal. 2011) (“Continued use by former . . . licensee of the mark constitutes a fraud on the
 3 public, since they are led to think that the continuing user is still connected with the trademark
 4 owner.” (internal quotation marks omitted)). After the termination of the License Agreement,
 5 there is no way for the public to know that the S3-produced UNIONBAY Products do not come
 6 from Plaintiff. Therefore, S3’s continued use of the UNIONBAY Marks on UNIONBAY
 7 Products is likely to cause confusion among consumers.

8 Under the Lanham Act, SPI is entitled to actual damages caused by the infringement. 15
 9 U.S.C. § 1117. In a case like this one involving a terminated licensee, it is proper to measure
 10 the amount of damages based on the royalty rate set forth in the license agreement. *See, e.g.,*
 11 *Choice Hotels Int’l, Inc. v. Patel*, 2013 U.S. Dist. LEXIS 194012,*9 (S.D. Cal. 2013) (“The
 12 Court finds that the appropriate measure of damages is the amount of royalties Choice Hotels
 13 would have received pursuant to the franchise agreement had Defendants remained franchisees
 14 during the infringing period.”). SPI has been damaged in the amount of royalties it has lost
 15 because S3 has continued to sell UNIONBAY Products without authorization, namely [REDACTED]
 16 representing royalties on all of S3’s 2018 sales.

17 “In assessing damages the court may enter judgment, according to the circumstances of
 18 the case, for any sum above the amount found as actual damages, not exceeding three times
 19 such amount.” 15 U.S.C. § 1117. In exercising this discretion, any damages enhancement
 20 “shall constitute compensation and not a penalty.” Id. *See Skydive Arizona, Inc. v. Quattrocchi*,
 21 673 F.3d 1105, 1114 (9th Cir. 2014). In this case, an enhancement of the damages award is
 22 proper in order compensate SPI for the substantial and irreparable loss of goodwill and value of
 23 the UNIONBAY Marks caused by S3’s unauthorized use of the marks. This loss is not
 24 reflected in the lost royalties which only reflect the negotiated compensation for the use of the
 25 marks under license. Ritchey Decl. ¶ 22. *See Choice Hotels*, 2013 U.S. Dist. LEXIS
 26

1 194012,*10 (doubling damages award of lost royalties based on damage to goodwill). S3 seeks
 2 an award of treble damages of \$144,408 to provide compensation to S3 for this loss.
 3

4 **IV. Olivia Miller, Inc. is Liable Under its Unconditional Guaranty**

5 Olivia Miller, Inc. (“Olivia Miller”) provided an unconditional guaranty of S3’s
 6 obligations under the License Agreement. “An absolute guaranty is an unconditional
 7 undertaking on the part of the guarantor that the debtor will pay the debt or perform the
 8 obligation.” *Nat'l Bank of Wash. v. Equity Investors*, 81 Wn.2d 886, 917, 506 P.2d 20 (1973)
 9 (quoting *Robey v. Walton Lumber Co.*, 17 Wn.2d 242, 255, 135 P.2d 95 (1943)). Because
 10 Olivia Miller’s guaranty is absolute, S3’s default under the License Agreement automatically
 11 triggers Olivia Miller’s liability for S3’s obligation. Thus, Olivia Miller is liable for the full
 12 amount of S3’s breach of contract, namely, \$208,148, plus prejudgment interest and attorney’s
 13 fees, as provided in the License Agreement.

14 **CONCLUSION**

15 SPI licensed its UNIONBAY Marks to S3 to sell footwear. S3 admittedly breached its
 16 payment obligations under the License Agreement and SPI properly terminated the license. S3
 17 is liable not only for breach of contract, but also for trademark infringement because it
 18 continued to sell UNIONBAY Products long after its license was terminated. SPI respectfully
 19 requests that the Court grant its motion for summary judgment and grant the following relief:

- 20 i. Breach of contract damages in the amount of \$208,148;
- 21 ii. Treble damages from trademark infringement in the amount of \$144,408;
- 22 iii. Prejudgment interest on the \$160,000 portion of breach of contract damages
 calculated at the annual rate of 12% from May 26, 2017 to the date of judgment;
 and
- 23 iv. Reasonable attorney’s fees and costs in an amount to be determined.

1
2 Respectfully submitted this 29th day of November, 2018,
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5 Seed IP Law Group LLP
6

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18
19
20 **CERTIFICATE OF SERVICE**

21 I hereby certify that on this 29th day of November, 2018, I caused to be electronically
22 filed the foregoing PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT with the Clerk of
23 Court using the CM/ECF system, which will send notification of such filing to the following
24 counsel of record:

25 Scott Zarin
26 scottzarin@copyrighttrademarkcounsel.com

27
28 /s/Jennifer Ruppert
29 Jennifer Ruppert